WESTBURNE'S WORLD

WESTBURNE INTERNATIONAL INDUSTRIES LTD.

ANNUAL REPORT 1970

WESTBURNE INTERNATIONAL INDUSTRIES LTD.

DIRECTORS

T.H. Atkinson, M.C.
Retired Bank Executive
Mount Bruno, Quebec

W.M. Booth,
President of Consolidated Oil & Gas, Inc.,
Denver, Colorado.

*Lucien Cornez,
President of United Westburne Industries Limited,
Montreal, Quebec.

John H. Coleman,
Deputy Chairman and Executive Vice-President,
The Royal Bank of Canada,
Montreal, Quebec

*Reginald Crone,
Vice-President - Finance,
Westburne International Industries Ltd.,
Calgary, Alberta.

F.R. Matthews, Q.C.,
Partner of MacKimmie Matthews,
Calgary, Alberta.

*J.R. McCaig,
President, Westburne International Industries Ltd.,
Calgary, Alberta.

R.W. McCaig,
President, R.M. Industries Co. Ltd.,
Regina, Saskatchewan.

Abraham Palmer,
President, Palmers Plumbing Supply Limited,
Ottawa, Ontario.

Joseph Rimerman,
President, Craig Plumbing & Heating Supplies Co. Ltd.,
Montreal, Quebec.

Maurice Saillant,
President, Saillant Inc.,
Quebec, Quebec.

*J.A. Scrymgeour,
Chairman of the Board,
Westburne International Industries Ltd.,
Calgary, Alberta.

R.D. Southern,
President, Atco Industries Ltd.,
Calgary, Alberta.

D.N. Stoker,
Vice-President and Director,
Nesbitt, Thomson and Company Limited,
Montreal, Quebec.

D.W. Westcott,
President, Engineering & Plumbing Supplies Limited,
Winnipeg, Manitoba.

*Members of the Executive Committee.

OFFICERS

J.A. Scrymgeour,
Chairman of the Board.

J.R. McCaig,
President.

Lucien Cornez,
Executive Vice-President.

Reginald Crone,
Vice-President - Finance.

J.C. Crawford,
Secretary.

W.J. Cummer,
Treasurer.

L.R. Roberts,
Controller.

HEAD OFFICE

202 - 706 Seventh Avenue S.W., Calgary 2, Alberta.

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,
Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal.

STOCK EXCHANGES

The Toronto Stock Exchange
The Montreal Stock Exchange

BANKERS

The Royal Bank of Canada.

LEGAL COUNSEL

MacKimmie Matthews, Calgary, Alberta.
Dunnington, Bartholow & Miller, New York, U.S.A.

AUDITORS

Touche Ross & Co.

THE COVER:

A brochure, Westburne's World, was mailed to shareholders and employees in May of 1970. This is the cover of that brochure depicting the activities of the Company. Copies of the brochure, in either French or English, may be obtained by writing to the Company at its Head Office.

ANNUAL MEETING:

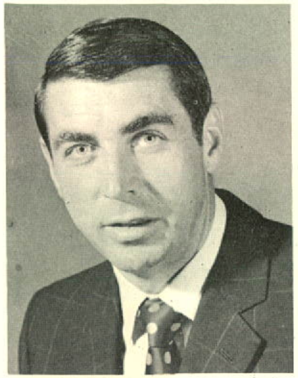
The Annual General Meeting of the Shareholders will be held in The Mayfair Room, The Calgary Inn, in the City of Calgary, Alberta, at 10:30 o'clock in the forenoon on Friday, June 26, 1970.

SI VOUS DESIREZ RECEVOIR UN EXEMPLAIRE EN FRANCAIS DU RAPPORT ANNUEL DE WESTBURNE, VEUILLEZ VOUS ADRESSER AU SECRETAIRE DE LA SOCIETE.

FINANCIAL HIGHLIGHTS

	1970	1969	Percentage Increase
For the Year Ended March 31 -			
Total Operating Revenue	$126,385,000	$111,440,000	13.4%
Net Earnings before Extraordinary Items	3,257,000	2,489,000	30.9
Per Share	0.85	0.65	30.9
Net Earnings After Extraordinary Items	3,264,000	3,078,000	6.0
Per Share	0.85	0.80	6.0
Cash Flow	7,345,000	7,194,000	2.1
Per Share	1.92	1.88	2.1
As at March 31 -			
Fixed Assets — Net	32,913,000	27,024,000	21.8
Total Assets	81,080,000	71,573,000	13.3
Long Term Debt - less amount due within one year	13,293,000	10,488,000	26.7
Shareholders' Equity			
Preferred	7,075,000	495,000	1329.3
Common	22,283,000	19,995,000	11.4
Per Share	5.84	5.24	11.4
Total Equity	29,358,000	20,490,000	43.3

For Financial Highlights of the separate operating divisions see pages 6 and 7



John R. McCaig
President

John A. Scrymgeour
Chairman of the Board

TO THE SHAREHOLDERS

We are pleased to present the First Annual Report of Westburne International Industries Ltd., which was incorporated on March 20th, 1969 for the purpose of acquiring three groups of companies:

1. United Westburne Industries Limited - one of the largest wholesale distributors of plumbing, heating and related supplies in Canada.

2. Commonwealth Petroleum Services Ltd. — Canada's largest driller for oil and gas, and also active in exploration and production for petroleum and in the sale of oilfield supplies and related equipment.

3. Trimac Transportation Limited - Canada's largest highway transporter of bulk commodities.

Commonwealth and Trimac are wholly-owned subsidiaries of Westburne International and United is approximately 87% owned. An offer was made on May 20, 1970 to United States residents who own shares and warrants of United to exchange their shares and warrants for similar securities of Westburne. This offer and a similar offer which is still outstanding to United's other shareholders will expire on June 30th, 1970.

These companies have become corporate divisions of Westburne International. Management effort has been concentrated during our first year of operation to ensure that the amalgamation of these companies into one operating unit was completed smoothly and without disruption. Westburne International has a strong management team both in overall administration and throughout the operating divisions. As can be seen in the section of this report entitled "Summarized Earnings of Operating Divisions" the "merged" companies have enjoyed an excellent first year as divisions of Westburne International.

REPORT ON YEAR'S OPERATIONS

In its first year of operation, Westburne International has had a most successful year with total operating revenues up 13.4% and earnings from operations up 22.7%. Net earnings after interest, income taxes and minority interest but before extraordinary gains increased 30.9%. The operations of each of the four major divisions of the Company, namely -

Oil and Mineral Exploration and Production,
Contract Drilling
Transportation, and
Equipment and Supplies

have been described in the brochure, "Westburne's World", mailed to shareholders, employees and other interested parties in May, 1970. Because of the diversified nature of these activities we are presenting to you summarized earnings information for each division for the years ended March 31, 1970 and 1969 together with a summary of the assets employed in each division as at March 31, 1970 and 1969.

SUMMARY

Gains have been made in each of the operating divisions. Earnings from Operations increased by an amount of $1,452,000 or 22.7%. The increase in Earnings Before Minority Interest increased only slightly, an amount of $148,000 representing 4.3%. The higher Earnings from Operations in fiscal 1970 were reduced by general administrative expenses of Westburne International plus substantially higher interest costs due to higher bank rates and increased loans. These higher costs were in turn partially offset by higher Interest and Other Investment Income and Gain on Sale of Fixed Assets in 1970. Extraordinary Gains were only $7,000 versus $589,000 last year.

Considering the generally restrictive economic conditions that prevailed throughout most of the fiscal year, we are gratified with the results in all divisions. A review of the operating highlights of each of the divisions follows:

OIL AND MINERAL EXPLORATION AND PRODUCTION

During the year steps were taken to make this division of the Company a more viable, self-contained unit. As a result of some corporate re-organization completed as of April 1, 1970 most of our oil and mineral properties were "merged" into one company, Westburne Petroleum & Minerals Ltd.

Westburne Petroleum owns oil and gas reserves in various fields in Alberta, Saskatchewan and British Columbia. In addition, it owns varying interests in 24,160 gross acres in the Hamilton Lake — Provost oilfields area of Central Alberta. During the year under review a substantial number of water injection wells and oil wells were drilled on these lands. A water flood and secondary recovery program, including the construction of a water pipeline during the year, are designed to increase the daily production and primary reserves in this area.

In addition, Westburne Petroleum holds a 2.24% interest in Panarctic Oils Ltd. in which it has invested $679,305 to March 31, 1970.

The Company has interests in mineral prospecting permits in the Wollaston Lake area of Saskatchewan and the Baker Lake area of the Northwest Territories. Additional exploratory work has been or is to be carried out on these prospects during the 1971 fiscal year.

CONTRACT DRILLING

The oil and gas contract drilling activities of your Company during the year under review were approximately the same in terms of total activity, as the previous year. This division of your Company continues as the leader in its field in Western Canada.

With the continued emphasis in northern exploration our contract drilling division is active in this area. As a fifty percent partner in a joint venture we are conducting drilling operations in the Arctic Islands under contract for Panarctic Oils Ltd. In addition, we have rigs located on the North Slope of Alaska and the MacKenzie River Delta.

During the year this division's foreign operations were broadened through the signing of a three-year contract with the Algerian government-owned oil company to staff and operate four drilling rigs in Algeria. Our contract drilling operations in Australia and Indonesia were more successful in the last quarter of 1970 and our expectations are that this will continue in fiscal 1971. We see further opportunity for development of contract drilling on an international level.

While there are some fluctuations in the Western Canadian petroleum industry at this time, drilling activity has been higher in the first quarter of fiscal 1971 than in the same period of 1970. There will be, in our view, a continuation of exploratory drilling in Western Canada but particularly also in Northern Canada, most specifically in the MacKenzie River Delta and the Arctic Islands. We see an increasing place in the activities of our contract drilling division for the development of new equipment for exploratory drilling.

TRANSPORTATION

Our transportation division showed a steady increase over the preceding year. Part of this growth was due to the acquisition during the year of a company engaged in transporting bulk whisky and certain other commodities in International traffic, and a company engaged primarily in cement hauling. These acquisitions broadened out the geographical areas served plus the operating permits held by the Company.

1970 was the first full year of operation for the research and development section of the transportation division. A number of projects were studied and as a result of this group's efforts our Company was appointed and is now the manager for the transportation of all export sulphur of 23 Alberta producers. In addition, on April 30, 1970, we signed a Heads of Agreement to lease from the National Harbours Board a 50.5 acre site at Roberts Bank, B.C. with a right of first refusal for an additional 50.5 acres. Plans are now being finalized to develop this site as a multi-products bulk handling terminal.

We anticipate that fiscal 1971 will see further broadening of our network of operating permits. Our transportation division will strive in the highway transportation of bulk commodities towards further development of new hauls and two-way hauls. In addition, we will be working on the further diversification of our total transportation activities.

EQUIPMENT AND SUPPLIES

The general high cost and scarcity of mortgage funds tended to depress the construction industry in Canada in the year under review. Activity was low in Montreal and in certain areas where construction workers strikes, of varying durations, occurred. Because of the geographical diversification that the plumbing and heating section of our Equipment and Supplies division accomplished over the past few years, increased activities in Western Canada, Ontario and certain other parts of the country resulted in an overall increase in sales.

Because of the pressures of tight money, the management of this division exerted considerable effort during 1970 to controlling credit, to improving inventory and receivable turns and to cutting costs. That they have done an excellent job of this is evidenced by the results of the division for the year. This program will be continued in 1971.

Sales of oil field and industrial supplies has continued to grow. New markets have been and are opening in Western Canada, the North and also abroad in connection with our foreign drilling activities.

In our equipment and supplies division continued emphasis will be placed on the development of new market areas, new products and continuation of programs of increased efficiencies and cost control.

FINANCIAL

Due to the tightening of economic and financial conditions during the year, and due to unavoidable delays in completing registration with the Securities and Exchange Commission of the United States, Westburne International was unable to complete its proposed Canadian - United States common share offering during the year just ended. However, a $5,000,000 issue of convertible preferred shares was completed in early April, 1970. The proceeds of this issue and the repayment of certain bank loans have been reflected in the balance sheet of the Company at March 31, 1970. Arrangements have been made to reborrow an amount of approximately $4,700,000 from our bankers for working capital and other purposes in the operating divisions in 1971.

The Company does not intend to do any equity financing until general market conditions improve substantially. Any future financing should be less costly and could be carried out more quickly because of the registrations made with the securities commissions in both Canada and the United States.

NEW DEVELOPMENTS

It is hoped that by the time of our Annual Meeting on June 26, 1970 our list of shareholders will be broadened by the addition of citizens of the United States who accept the exchange offer made to them on May 20, 1970 and that any others who have not accepted our offer will do so prior to its termination.

ECONOMIC VIEWPOINT

During the year under review there were several important developments in the Canadian and World economic scenes as they affect your Company.

In the petroleum industry there was, firstly, the exploration and the discovery of natural gas in the Arctic Islands, secondly, the discovery of oil in the MacKenzie River Delta and, thirdly, the beginning of exploration off the East Coast of Canada in the Atlantic Ocean. For the first time Canadians are witnessing the opening of the Canadian North on a basis that will be economically sound, and should provide for developments that will bring into being another growth cycle of the Canadian petroleum industry, paralleling that which commenced with the discovery of Leduc in 1947. On the East Coast, where exploration offshore is just commencing, the successful discovery of petroleum would enable Canada for the first time to develop a true Canadian oil policy. When one considers the demand for petroleum products for the decades ahead there can be no concern as to the ultimate marketing of all reserves which are discovered on the Canadian scene. If we examine the record of expansion since 1947 there is no reason today to be discouraged in the future of all sectors of the petroleum industry. Despite some negative publicity that occurs when discussions between governments and companies in the petroleum industry are taking place, we look optimistically on the continued expansion of markets for Canadian petroleum products.

Unfortunately, this optimistic viewpoint cannot be held in commenting on the recent proposals by the Canadian Government's "White Paper" on taxation reform and while these are proported to be only on a discussion basis, it has been alarming for Canadians generally to see presented proposals with deep economic and social implications brought before the people at this time of economic uncertainty. Indeed, every possible measure should be taken by Government to encourage savings, stimulate investment and develop new concepts to provide the economic opportunity for Canadians to own a part of and invest in their own country.

The generally tight money situation and the inflationary problems confronting our country and others is obviously of concern. It is to be hoped that inflation can be brought under control and that appropriate measures will be taken to bring stability to our economy.

With the need and opportunities for (1) development of further oil and gas reserves, (2) housing, (3) increased industrialization throughout Canada, particularly Western Canada, plus our growing role in the World markets, we are optimistic about the opportunities for all divisions of your Company.

This future development can only be accomplished, of course, through the efforts and support of all employees, our shareholders, our bankers and our other professional advisers, to all of whom we express our sincere gratitude.

During the year Mr. Joseph Beaubien, the founder of United Westburne, retired as an officer and director of the Company. It was he who gave the name Westburne to the original company, pioneered its development in the petroleum industry, the association with Commonwealth and participated in the recent merger.

We are most pleased to report the election to the Board of Mr. John H. Coleman, Deputy Chairman and Executive Vice-President of The Royal Bank of Canada.

On Behalf of the Directors

J. R. McCaig   J. A. Scrymgeour

John R. McCaig,
President

John A. Scrymgeour
Chairman of the Board

SUMMARIZED EARNINGS OF OPERATING DIVISIONS (1)

(Thousands of Dollars)

	Year Ended March 31, 1970				Year Ended March 31, 1969 (2)				Percentage Change			
	Operating Revenues	Administrative & General Expenses	Depreciation & Depletion	Earnings From Operations	Operating Revenues	Administrative & General Expenses	Depreciation & Depletion	Earnings From Operations	Operating Revenues	Administrative & General Expenses	Depreciation & Depletion	Earnings From Operations
Oil and Mineral Exploration and Production	$ 644 (3)	$ 98	$ 429	$ 117	$ 632 (3)	$ 49	$ 451	$ 132	+ 1.9% (3)	+ 100.0%	– 4.8%	– 11.4%
Contract Drilling	19,372	1,305	1,090	2,673	20,149	1,179	1,017	2,172	– 3.8	+ 10.7	+ 7.2	+ 23.1
Transportation	21,330	2,536	1,741	1,757	15,450	2,217	1,290	1,231	+ 38.1	+ 14.4	+ 35.0	+ 42.7
Equipment and Supplies	85,039	10,437	498	3,295	75,209	8,750	317	2,855	+ 13.1	+ 19.3	+ 57.1	+ 15.4
	$126,385	$ 14,376	$ 3,758	$ 7,842	$111,440	$ 12,195	$ 3,075	$ 6,390	+ 13.4%	+ 20.0%	+ 22.2%	+ 22.7%
Add (Deduct) –												
General administrative expenses			$(435)				$ –					+ 100.0%
Interest expense			(2,127)				(1,447)					+ 47.0
Interest and other investment income			347				147					+ 136.0
Gain on sale of fixed assets			321				157					+ 104.4
Extraordinary gains less losses			7				589					– 98.8
Income taxes			(2,336)	(4,223)			(2,365)	(2,919)				– 1.2
Earnings before minority interest				$ 3,619				$ 3,471				+ 4.3%

Note – (1) Figures are presented by type of business activity rather than corporate entity.

(2) Reference is made to Note 1(b), Notes to Consolidated Financial Statements.

(3) Operating Revenues from Oil and Mineral Exploration and Production are net of direct expenses.

SCHEDULE OF ASSETS EMPLOYED

(Thousands of Dollars)

	Oil & Mineral Exploration & Production	Contract Drilling	Transportation	Equipment & Supplies	General	Total
As at March 31, 1970						
Current Assets:						
Cash and short term deposits	$ 8	$ 119	$ 234	$ 604	$ 94	$ 1,059
Accounts receivable (less allowance for doubtful accounts)	429	5,209	1,986	13,893	1	21,518
Inventories	10	195	389	16,020	–	16,614
Prepaid expenses	3	136	1,043	58	19	1,259
	450	5,659	3,652	30,575	114	40,450
Investments and Advances at cost	742	1,283	440	91	1,580	4,136
Fixed Assets, at cost	9,721	23,215	16,551	8,259	30	57,776
Less - Accumulated depreciation and depletion	2,637	11,788	8,033	2,398	7	24,863
	7,084	11,427	8,518	5,861	23	32,913
Unamortized Financial Expenses	–	–	–	214	355	569
Excess of Cost of Investments in Shares of Subsidiaries Over Net Assets at Date of Acquisition	–	(402)	1,485	1,929	–	3,012
Total Assets	$ 8,276	$17,967	$14,095	$38,670	$ 2,072	$81,080

	Oil & Mineral Exploration & Production	Contract Drilling	Transportation	Equipment & Supplies	General	Total
As at March 31, 1969						
Current Assets:						
Cash and short term deposits	$ 13	$ 41	$ 539	$ 1,449	$ –	$ 2,042
Accounts receivable (less allowance for doubtful accounts)	141	6,178	1,831	12,956	–	21,106
Inventories	–	148	345	14,823	–	15,316
Prepaid expenses	3	96	737	206	–	1,042
	157	6,463	3,452	29,434	–	39,506
Investments and Advances at cost	302	1,167	514	185	–	2,168
Fixed Assets, at cost	6,761	22,241	11,799	7,118	–	47,919
Less - Accumulated depreciation and depletion	2,189	11,491	5,172	2,043	–	20,895
	4,572	10,750	6,627	5,075	–	27,024
Unamortized Financial Expenses	–	–	–	195	200	395
Excess of Cost of Investments In Shares of Subsidiaries Over Net Assets at Date of Acquisition	–	(430)	981	1,929	–	2,480
Total Assets	$ 5,031	$17,950	$11,574	$36,818	$ 200	$71,573

Financial Report

WESTBURNE INTERNATIONAL INDUSTRIES LTD.
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at March 31, 1970
(Thousands of Dollars)

ASSETS

	1970	1969
CURRENT ASSETS:		
Cash and short term deposits	$ 1,059	$ 2,042
Accounts receivable		
Trade (less allowance for doubtful accounts of $1,146 at 1970 and $893 at 1969)	21,518	21,072
Directors	—	34
Inventories, at lower of cost or net realizable value	16,614	15,316
Prepaid expenses	1,259	1,042
Total Current Assets	40,450	39,506
INVESTMENTS AND ADVANCES: AT COST (Note 3)		
Shares and advances		
Panarctic Oils Ltd.	679	239
Other	871	840
Notes and mortgages receivable	272	320
Notes receivable - directors and employees	2,314	769
	4,136	2,168
FIXED ASSETS, AT COST (Note 4)	57,776	47,919
Less accumulated depreciation and depletion	24,863	20,895
	32,913	27,024
UNAMORTIZED FINANCIAL EXPENSES (Note 5)	569	395
EXCESS OF COST OF INVESTMENTS IN SHARES OF SUBSIDIARIES OVER NET ASSETS AT DATE OF ACQUISITION (Note 6)	3,012	2,480
Total Assets	$81,080	$71,573

LIABILITIES

	1970	1969
CURRENT LIABILITIES:		
Bank loans, secured (Notes 2 and 7)	$ 9,091	$12,397
Accounts payable	15,228	17,859
Income taxes payable (Note 9(b))	1,373	434
Dividend payable	50	45
Long term debt due within one year	3,265	1,582
Unsecured 8% demand notes due to shareholders	360	—
Total Current Liabilities	29,367	32,317
LONG TERM DEBT, LESS AMOUNT DUE WITHIN ONE YEAR (Note 8)	13,293	10,488
DEFERRED INCOME TAXES (Note 9)	3,849	3,346
MINORITY INTEREST (Note 10)	5,213	4,932
Total Liabilities	51,722	51,083
SHAREHOLDERS' EQUITY		
CAPITAL STOCK: (Notes 2 and 11)		
Preferred	7,075	495
Common	3,816	3,812
CONTRIBUTED SURPLUS (Note 12)	23	—
RETAINED EARNINGS (Note 13)	18,444	16,183
Total Shareholders' Equity	29,358	20,490
Total Liabilities and Shareholders' Equity	$81,080	$71,573

Commitments and Contingent Liabilities (Notes 14 and 15)

AUDITORS' REPORT

The Shareholders,
Westburne International Industries Ltd.

We have examined the consolidated balance sheet of Westburne International Industries Ltd. and its subsidiaries as at March 31, 1970 and the consolidated statements of earnings,retained earnings and source and application of funds for the year then ended. For Westburne International Industries Ltd. and those subsidiaries of which we are the auditors our examination of the financial statements included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied as set forth in Note 1 on a basis consistent with that of the preceding year.

Calgary, Alberta
June 3, 1970

Touche Ross & Co.
Chartered Accountants.

APPROVED ON BEHALF OF THE BOARD:

J.A. Scrymgeour, Director

J.R. McCaig, Director

WESTBURNE INTERNATIONAL INDUSTRIES LTD.
AND SUBSIDIARY COMPANIES
for the year ended March 31, 1970
(Thousands of Dollars)

Consolidated Statement of Earnings

	1970	1969
OPERATING REVENUES:		
Sales of merchandise	$ 85,039	$ 75,209
Contract drilling	19,372	20,149
Oil and gas production (net after direct costs)	644	632
Transportation	21,330	15,450
	126,385	111,440
COSTS AND EXPENSES:		
Cost of sales - merchandise	70,810	63,287
Contract drilling	14,303	15,781
Transportation	15,296	10,712
Depreciation and depletion (Note 4)	3,758	3,075
Selling, general and administrative	14,811	12,195
	118,978	105,050
EARNINGS FROM OPERATIONS	7,407	6,390
OTHER DEDUCTIONS:		
Interest - long term debt	1,372	779
Other interest	755	668
Interest and other investment income	(347)	(147)
Gain on sale of fixed assets	(321)	(157)
	1,459	1,143
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	5,948	5,247
INCOME TAXES: (Note 9)		
Current	2,013	1,324
Deferred	323	1,041
	2,336	2,365
EARNINGS BEFORE EXTRAORDINARY ITEMS:	3,612	2,882
Gain on sale of investments	1	987
Gain on sale of subsidiary company	6	—
Non-recurring loss on termination of activity of manufacturing subsidiary net of applicable income tax return	—	(398)
EARNINGS BEFORE MINORITY INTEREST	3,619	3,471
MINORITY INTEREST	355	393
NET EARNINGS FOR THE YEAR	$ 3,264	$ 3,078
Number of common shares outstanding (Note 11)	3,816,407	3,816,407
Earnings per common share (Note 17) (after preferred dividends)		
Before extraordinary items	$ 0.85	$ 0.65
After extraordinary items	0.85	0.80

Consolidated Statement of Source and Application of Funds

WORKING CAPITAL - opening balance	$ 7,189
SOURCE OF FUNDS:	
Net earnings	3,264
Depreciation and depletion	3,758
Deferred income tax	323
Funds from operations	7,345
Increase in long term debt	9.922
Sale of fixed assets	864
Collection of notes and mortgages (net)	225
Issue of Preferred Shares -	
Series A	5,000
1970 Series	1,580
(Less notes accepted as consideration for issue of 1970 Series)	(1,580)
Deferred income tax of subsidiaries acquired	303
Other	42
Total	23,701
APPLICATION OF FUNDS:	
Purchase of fixed assets and investments	11,117
Repayment of long term debt	7,117
Dividends on preferred shares	18
Financial and organization expenses	1,023
Excess cost of investments in shares of subsidiaries acquired over net book value of assets	532
Total	19,807
INCREASE DURING THE YEAR	3,894
WORKING CAPITAL - closing balance	$11,083

Comparative figures for 1969 are not shown due to the change in fiscal year end of two principal subsidiaries as described in Note 1(b)

Consolidated Statement of Retained Earnings

	1970	1969
OPENING BALANCE	$16,183	$13,448
ADD		
Net earnings for the year	3,264	3,078
DEDUCT	19,447	16,526
Net loss of United (net of minority interest) and Trimac for the three month period ended March 31, 1969 (see Note 1(b))	—	337
Dividends on preferred shares - 1969 Series	18	6
Adjustment of minority interest on issue of preferred shares to minority shareholders of subsidiary companies	282	—
Incorporation and organization expense including cost of Exchange Offers to acquire shares of United, Commonwealth and Trimac and commission and expenses of issue of Preferred Shares, Series A (net of applicable income tax of $132,000)	703	—
CLOSING BALANCE	$18,444	$16,183

Notes to Consolidated Financial Statements March 31, 1970

1. PRINCIPLES OF CONSOLIDATION:

(a) The consolidated financial statements at March 31, 1970 and for the year then ended have been prepared on the "pooling of interest" basis, accounting for the acquisition to March 31, 1970 of the following shares of the principal subsidiaries (Commonwealth Petroleum Services Ltd., Trimac Transportation Limited and United Westburne Industries Limited);

(i) all of the 822,671 outstanding shares of Commonwealth in exchange for 2,056,678 common shares of the Company and the payment of $3,290,684;

(ii) all of the 9,900 outstanding 5% Cumulative Redeemable Convertible Preferred Shares, Series Z, par value $50 each, of Commonwealth in exchange for 49,500 5% Cumulative Redeemable Convertible Preferred Shares, Series Z, par value $10 each, of the Company;

(iii) all of the 1,000 Class A common shares, all of the 220 Class B common shares, all of the 600 Class A preference shares and all of the 6,047 Class B preference shares of Trimac in exchange for 1,048,000 common shares of the Company;

(iv) 1,440,707 common shares of United tendered in exchange for 1,440,707 common shares of the Company;

and to the elimination on consolidation of 728,980 common shares of the Company held by a subsidiary, carried at a cost of $2,624,873.

The same principles of consolidation giving effect to the acquisition of shares outlined above have been used in the preparation of comparative statements as at March 31, 1969 and for the year then ended.

(b) Prior to 1969 the fiscal year ends of two principal subsidiaries, Trimac Transportation Limited and United Westburne Industries Limited were December 31. Early in 1969 the fiscal year ends were changed to March 31. Accordingly, the consolidated statement of earnings for 1969 includes the consolidated earnings of those subsidiaries for the fiscal years ended December 31, 1968 together with the consolidated earnings of the other principal subsidiary for its fiscal year ended March 31, 1969. The consolidated statement of earnings for the year ended March 31, 1970 includes earnings of all companies for the fiscal year then ended. The consolidated losses of Trimac and United for the three months ended March 31, 1969 are shown as a deduction from retained earnings.

2. RETROACTIVE INCLUSION OF ISSUE OF PREFERRED SHARES:

The consolidated financial statements at March 31, 1970 give retroactive effect to:

(i) the issue on April 21, 1970 of 200,000 8% Cumulative Redeemable Convertible Preferred Shares, Series A, at a price of $25.00 per share. The net proceeds, after deduction of commissions of $250,000 and estimated expenses of issue of $100,000, amounted to $4,650,000 which were applied against bank loans.

(ii) the issue on April 13, 1970 of 158,000 6% Subordinated Cumulative Redeemable Convertible Preferred Shares 1970 Series, pursuant to an Employee Stock Ownership Plan. In accordance with the terms of the Plan, the Company accepted promissory notes in the principal amount, equal to the aggregate of the par value of the shares issued ($1,580,000) such notes bearing interest at 6% per annum and maturing December 31, 1980.

3. SHARES AND ADVANCES:

(a) Panarctic Oils Ltd.

A subsidiary acquired 67,762 preferred shares of the par value of $10 each and 16,491 common shares of Panarctic, in consideration of commitments to contribute an aggregate of $679,305 to exploration and drilling operations being carried out by Panarctic in the Arctic Islands, such amount having been contributed as at March 31, 1970.

On May 15, 1970 the subsidiary entered into an agreement relating to Panarctic wherein it acquired a further 45,174 preferred shares of a par value of $10 each and 11,294 common shares of Panarctic in consideration of a commitment to spend an additional amount of $452,870 prior to October 15, 1971 on exploration and drilling operations.

(b) A director of the Company holds an option, expiring February 19, 1971, to acquire 1,600 of the 4,800 shares held in Island Drilling Inc., a company in which a 33 1/3% share interest is held, at $34,600, being the same price per share as was paid by the Company.

(c) Notes Receivable - Directors and Employees

The Company and subsidiaries hold notes of directors and employees (including officers) aggregating $2,313,748 at March 31, 1970 arising primarily from subscriptions for preferred and common shares of the Company and/or its subsidiaries; $475,000 of the notes bear interest at 5% and are due on or before January 2, 1979, $1,580,000 bear interest at 6% and are due on or before December 31, 1980 and the balance are non-interest bearing and are payable in annual installments to be agreed upon with full payment required by 1983.

4. FIXED ASSETS, DEPRECIATION AND DEPLETION:

	March 31, 1970		March 31, 1969	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Land	1,839,285	$ —	$ 1,618,230	$ —
Buildings	7,345,811	1,830,703	5,988,088	1,514,687
Drilling rigs	14,219,050	6,622,458	13,584,594	6,432,988
Drill string	4,327,846	2,159,269	3,987,525	2,047,736
Revenue producing vehicles	13,689,133	7,127,100	10,325,089	4,877,001
Oil production equipment	2,820,861	564,215	1,154,754	469,927
Other equipment	6,658,245	4,503,579	5,654,647	3,833,372
Oil & mineral leases and development expenditures	6,875,469	2,055,478	5,606,251	1,719,571
	$57,775,700	$24,862,802	$47,919,178	$20,895,282

It is the policy of the company to depreciate the cost of plant and equipment to its estimated residual value over the estimated useful lives of the assets, as follows:

Buildings - at rates of 5% to 10%, mainly on a diminishing balance basis.

Drilling rigs - at a rate per drilling day designed to prorate original cost less a residual value of 30% over 3,000 drilling days (approximately 20 years).

Drilling string - 10% straight-line basis.

Revenue producing vehicles - (i) power units - diminishing rates on cost designed to amortize 80% of the cost over 5 years.

- (ii) trailers - straight-line method at 12% per annum.

Oil-production equipment, oil leases and development expenditures - unit of production method based on estimated recoverable reserves.

Other equipment - mainly 20% to 30% diminishing balance basis.

5. UNAMORTIZED FINANCIAL EXPENSES:

Unamortized debenture discount and related expenses	$213,850
Estimated expenses relating to proposed issue of common shares	355,157
	$569,007

Unamortized debenture discount and related expenses are being amortized over the terms of the debentures. The Company is of the opinion that the estimated costs related to a proposed common share offering by the Company and certain of its principal shareholders in 1969 has continuing value through March 31, 1971 to a possible sale of common shares. If no sale of common shares occurs prior to that date, these expenses will be charged to retained earnings.

6. EXCESS OF COST OF INVESTMENTS IN SHARES OF SUBSIDIARIES OVER NET ASSETS AT DATE OF ACQUISITION:

The unamortized excess of cost of investment in shares of subsidiaries over net assets at date of acquisition arises from the accounting by subsidiaries for acquisitions of their subsidiaries on a "purchase basis". This excess has been allocated as follows:

Fixed assets	$ 465,094
Intangibles	3,011,975
	$3,477,069

Management is of the opinion that the amount of $3,011,975 attributed to intangible assets is of continuing value and accordingly does not contemplate any amortization of this asset.

7. ASSETS PLEDGED:

The Company has pledged all accounts receivable, certain investments and certain of its oil and gas producing properties as security for bank loans, and one subsidiary has granted a debenture secured by floating charge on all its assets as security for its revolving bank loan.

A subsidiary has granted a floating charge on all of its assets as security for its outstanding Sinking Fund Debentures amounting to $5,745,000 and subsidiaries have granted mortgages secured by certain real property and improvements.

8. LONG TERM DEBT:

	1970	1969
(a) Sinking Fund Debentures		
Series A - 7% maturing March 15, 1987 (1)	$4,275,000	$4,275,000
Series B - 7½% maturing August 1, 1982	520,000	560,000
Series C - 8½% maturing March 31, 1989	950,000	1,000,000
	$5,745,000	$5,835,000

(1) After deducting $225,000 purchased and held in safekeeping for future sinking fund requirements.

The Company has covenanted to provide a sinking fund related to the above debentures aggregating $315,000 during 1971 to 1973, $340,000 in 1974 and $365,000 annually thereafter.

The debentures are redeemable prior to maturity for other than sinking fund purposes at maximum premiums ranging from 5.87% to 7.95%, such premiums to decrease by .375% to .50% yearly until the various redemption prices equal the par values.

	1970	1969
(b) Bank Loans, including current portion	8,069,389	2,144,000

The above includes special capital loans, oil and gas production loans and a revolving bank loan related to revenue producing vehicles. The loans carry interest rates ranging from 9¼% to 10¼% at March 31, 1970.

	1970	1969
(c) Mortgages, conditional sales contracts, etc.	2,743,627	4,091,667

The above carry interest rates ranging from 0% to 11% at March 31, 1970

	1970	1969
Total long term debt	16.558,016	12,070,667
Less amount due within one year	3,265,504	1,582,340
	$13,292,512	$10,488,327

The aggregate maturities and sinking fund requirements of long term debt for the five years ended March 31 are as follows: 1971 - $3,265,000; 1972 - $3,103,000; 1973 - $2,652,000; 1974 - $1,301,000; 1975 - $692,000.

9. **INCOME TAXES:**

(a) Deferred Income Taxes

Under the provisions of the Canadian Income Tax Act the Company is entitled to claim and has claimed capital cost allowance and intangible exploration and development expenses which exceed the amounts recorded in the accounts. In this connection current accounting practice recommends the recording of corporate income taxes on the "tax allocation" basis for timing differences between accounting income and taxable income. The Company has adopted this policy in respect of certain timing differences and has recorded in the accounts deferred income tax credits of $4,120,199 relating to tangible assets and deferred income tax debits of $271,584 relating to accumulated losses of a subsidiary.

The Company is of the opinion that the "tax allocation" basis for timing differences relating to intangible exploration and development expenses is not appropriate for the subsidiaries in the oil industry and this opinion is shared by others in the industry. Had the Company used the "tax allocation" basis for intangible exploration and development expenses additional deferred income taxes aggregating $1,402,000 would have been recorded on the books to March 31, 1970.

(b) Oil and Gas Exploration Deductions

Under provisions of the Canadian Income Tax act, companies whose principal business is related to oil and gas activities are entitled to deduct in computing taxable income, expenditures incurred in oil or gas exploration and development. These expenditures must be deducted in the year incurred to the extent that there is income against which they may be offset but any excess can be carried forward indefinitely to be similarly applied against income in each successive year until the expenditures have been fully applied.

In prior years, the Company acquired subsidiaries which had incurred such expenditures. In computing taxable income for the years ended March 31, 1969 and 1970, certain of these subsidiaries deducted expenditures incurred in prior years. The Department of National Revenue - Taxation Division has questioned the deductibility of these particular amounts by such subsidiaries indicating that in its opinion, the rights of such subsidiaries to these deductions were no longer vested in the subsidiaries because of certain agreements entered into by them prior to their acquisition by the Company. The Company, having obtained the advice of counsel, is of the opinion that these subsidiaries are still entitled to the deductions. The Department of National Revenue - Taxation Division has issued assessments and the Company has entered appeals against them. The amounts of such assessments aggregate $320,000 with respect to the year ended March 31, 1969. In addition, income tax of approximately $213,000 could become payable with respect to the year ended March 31, 1970. The Company has provided, out of earnings of the last two years, an income tax reserve of approximately $340,000 which is available in the event the appeals and, if necessary, court actions are not successful. The application of the general principle embodied in the Canadian Income Tax Act which permits the deduction of expenditures incurred in oil, gas and mineral exploration and development is not being disputed. As a result, no question arises as to the deductibility of expenditures presently being incurred in exploration of oil, gas and minerals.

10. **MINORITY INTEREST:**

Preferred shares	$3,506,336
Common shares and contributed surplus	595,133
Retained earnings	1,111,898
	$5,213,367

11. **CAPITAL:**

(a) Capital Stock

	Authorized Shares	Authorized Amount	Issued Shares	Issued Amount
Preferred Shares of the par value of $25 each, issuable in series	680,000	$17,000,000		
8% Cumulative Redeemable Convertible Preferred Shares, Series A			200,000	$5,000,000
Subordinated Preferred Shares of the par value of $10 each, issuable in series	300,000	3,000,000		
5% Subordinated Cumulative Redeemable Convertible Preferred Shares 1969 Series			49,500	495,000
6% Subordinated Cumulative Redeemable Convertible Preferred Shares 1970 Series			158,000	1,580,000
				$7,075,000
Common Shares of the par value of $1 each	10,000,000	10,000,000	3,816,407(1)	$3,816,407

(1) Exclusive of 728,980 shares held by a subsidiary.

(b) Share Purchase Warrants and Options

178,914 Common Shares are reserved for issue upon the exercise of 178,914 Share Purchase Warrants Series "A" until March 15, 1977 for a cash consideration of $6 per share which share purchase warrants have been issued or may be issued in exchange for a like number of a subsidiary's 1967 Series Share Purchase Warrants; 198,000 Common Shares are reserved for issue upon the conversion of 49,500 5% Subordinated Cumulative Redeemable Convertible Preferred Shares 1969 Series, from January 1, 1973 to January 1, 1979; 158,000 Common Shares are reserved for issue upon the conversion of 158,000 6% Subordinated Cumulative Redeemable Convertible Preferred Shares 1970 Series between January 1, 1975 and December 31, 1980; 500,000 Common Shares are reserved for issue upon the conversion of 200,000 8% Cumulative Redeemable Convertible Preferred Shares, Series A; 15,000 Common Shares are reserved for issuance upon the exercise of 15,000 Series B Share Purchase Warrants, until April 1, 1979 for a cash consideration of $14 per share, subject to adjustment in certain events and 1,667 Common Shares are reserved for a share exchange of a like number of common shares of a subsidiary if an employee holding an option exercises that option at $3.81 per share and accepts said share exchange offer at any time up to December 27, 1974.

12. **CONTRIBUTED SURPLUS:**

This amount arises from the issue of capital stock by two of the principal subsidiaries for a consideration in excess of par value in a total amount of $781,562, which on pooling is adjusted by an amount of $758,009 leaving a balance of $23,553.

13. **RETAINED EARNINGS:**

(a) Under the provisions of the governing statutes, $847,383 (the amount equal to the par value of preference shares of subsidiaries redeemed) is restricted from distribution to shareholders.

(b) An agreement with the preferred shareholders of a subsidiary requires that a purchase redemption fund be established. $62,000 is restricted for this purpose.

(c) The trust deeds under which the Series "A", "B" and "C" debentures of a subsidiary were issued provide certain restrictions on the payment of dividends. The provisions of a subsidiary's Memorandum of Association relating to the issue of its First Preferred "A" shares also contain restrictions on the payment of dividends on its common shares.

14. **COMMITMENTS:**

(a) Subsidiaries hold various interests in mineral prospecting permits in the Wollaston Lake area of N.E. Saskatchewan and in the Baker Lake area of the Northwest Territories. In order to maintain such interests in the permits total expenditures on exploration work averaging approximately $600,000 annually will be required in each of the 1971, 1972, and 1973 fiscal years. However, such annual expenditures not committed may be avoided by timely surrender of all interest in the relative permit or permits.

(b) A subsidiary has given a letter of commitment to guarantee 5% of the cost of two new offshore drilling rigs to be acquired at an estimated cost of $24,000,000 by Southeastern Commonwealth Drilling Ltd., a company in which it has a 5% share interest.

(c) The Company and its subsidiaries have entered into lease agreements for premises at annual rentals approximating $450,000 as at March 31, 1970 and for various terms expiring up to November 1977.

15. **CONTINGENT LIABILITIES:**

Certain subsidiaries are contingently liable as guarantors of the indebtedness of associated companies as follows:

(a) Guarantee of certain obligations for purchase of drilling equipment by Island Drilling Inc. a company in which a one-third share interest is held. The guarantee is joint and several with two other companies each of which also has a one-third interest.	$1,012,086
(b) Guarantee of 5% of certain liabilities incurred by Southeastern Commonwealth Drilling Ltd.	174,510
	$1,186,596

16. **REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:**

The Company and its subsidiaries paid all directors and senior officers, including directors who are officers, an aggregate of $384,695 during the year ended March 31, 1970.

17. **EARNINGS PER COMMON SHARE:**

(a) Fully diluted earnings per share

	1970	1969
Before extraordinary items	$ 0.79	$ 0.62
After extraordinary items	0.79	0.75

Fully diluted earnings per common share give effect to the conversion of the 5% Subordinated Preferred Shares 1969 series and the exercise of warrants and options outstanding as at March 31, 1970 but does not reflect the common shares issuable on conversion of the 8% Preferred Shares Series A and the 6% Subordinated Preferred Shares 1970 Series (Note 2).

(b) When calculated in accordance with Opinion 15 of the Accounting Principles Board of the American Institute of Certified Public Accountants, earnings per share for the year ended March 31, 1970 are as follows:

Primary earnings per share	$ 0.83
Fully diluted earnings per share	0.79

Primary and fully diluted earnings per share do not reflect the retroactive inclusion of issue of 8% Preferred Shares, Series A and 6% Subordinated Preferred Shares 1970 Series (Note 2).